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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -
JUNE 11

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ECON/ELAB: OECD urges Spain to adjust their pensions
SMIG/SOCI: Spain's population reaches 45 million
EFIN/EINV: Foreign Investors' list of major complaints
EAGR: EU agrees to reform subsidy methodology
ELAB: 2 million pensioners live on less than 469 euros
ELAB: Airline strike in the Canary Islands affects flights
SOCI: Rising unemployment rate for immigrants
ECON/EFIN: Savings banks growing faster than traditional
EIND/ENRG: Increased electricity prices cause complaints

OECD URGES SPAIN TO ADJUST THEIR GENEROUS PENSIONS

¶1. (U) The OECD indicated this week that Spain needs a "fundamental and urgent" reform of their pension system, particularly given Spain's aging population. The OECD says that Spain is the fourth most generous of its member countries; a Spaniard with an average salary will receive approximately 81.2% of his salary compared with the average rate of 59% for other OECD countries. Given its aging population, Spain's level of pensions will be difficult if not impossible to sustain in the long-term.

SPAIN'S POPULATION REACHES 45 MILLION

¶2. (U) Roughly five million people in Spain are immigrants. EU-27 immigrants number about 1.7 million; almost 800,000 are from Africa; and about 1.4 million from South America. Morocco, Romania, Ecuador, the UK and Colombia have sent the largest number of immigrants. (Comment: The numbers are astonishing. After the U.S., Spain is the OECD country that receives the most immigrants. Spain has been a net recipient of people for about half a decade. Spaniards are still getting used to this phenomenon. Good economic times, as well as the large numbers of culturally and linguistically very assimilatable South Americans, have made immigration relatively uncontroversial. However, problems with integrating more Muslim immigrants, and potentially lower economic growth in the future, may change this in the next couple of years. For now though, Spaniards take pride in having a higher population. With births per woman well below the replacement rate, a few years ago Spaniards feared population decline.) (El Pais, June 12, 2007)

SPANISH FOREIGN INVESTMENT ATTRACTION BODY (INTERES) LISTS
FOREIGN INVESTORS' MAJOR COMPLAINTS

¶3. (U) Foreign investors (foreign investors in general, not just American firms) complain about the rigid labor market, uncertain legal framework, overzealous tax inspectors; and politicized regulators. Net Foreign Direct Investment (FDI) has declined from Euros 29.4 billion in 2000 to Euros 3.6

billion in 2006. The Spanish government recently created Interes in order to stimulate additional investment, particularly in research & development-based industries. Many American firms share the same concerns. (Comment: With increasing wage rates, the glory days of major FDI in factories are over for Spain. Spanish corporations, however, are much richer and can take up some of the slack. Spanish companies are now also major investors overseas. Nevertheless, if Spain is going to transform itself from a bricks and mortar-based economy to a high tech value added goods and services producing economy, more foreign investment is critical.) (Expansion, 6/6/07)

EU AGREES ON SUBSIDY REFORM

14. (U) The European Union has agreed to reform the subsidy methodology used to support European producers of fruit and vegetables. Because Spain is the most important producer of fruit and vegetables in the European Union, reform is of utmost concern to Spanish producers and Government representatives. The Spanish Minister of Agriculture went on the offensive the day of agreement June 12, announcing on Spanish television that the Government had achieved all of its goals and had negotiated the ability to pay Spanish tomato growers 15 million Euros during this year's campaign to help ease the current economic crises. Other important features of the reform will include four, and five-year transitions from payment for production, to payment based on hectares harvested for tomatoes and citrus fruit, respectively.

15. (U) At first blush and without full disclosure of all of the details of the program, it appears to out of step with the reforms in other sectors, which featured a "single farm payment," based on historical subsidization. This new approach appears to be a "Blue Box" program that will require specific limitations on the number of hectares a farmer can

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produce of any given fruit or vegetable crop. There are current World Trade Organization (WTO) limits on the amount of funding the Europeans can spend on "Blue Box" programs, but because they are transitioning some of their other previously "Blue Box" programs to the Single Farm Payment, which have the potential to be notified "Green Box" under current WTO rules, those "Blue Box" limits were not likely to have been pertinent in the reform discussions.

2 MILLION PENSIONERS SURVIVE ON 469 EUROS A MONTH

16. (U) Despite the OECD's indications that Spain must reform their "generous" pension system, the average income of the 8 million pensioners that exist in Spain is 553 euros a month (according to a local study by UGT). The majority of pensioners in fact live below poverty levels, and receive less than 469 euros a month. UGT declared this situation to be a violation of article 50 of the Spanish Constitution, which established that authorities would guarantee through suitable pensions economic sufficiency to citizens during their senior years. There is also an equality issue at play given that women receive 30% less than men. On the other side of the scale, 10% of pensioners receive 1,200 euros a month.

STRIKE RESULTS IN FLIGHTS CANCELED IN CANARY ISLANDS

17. (U) Over the past two weeks, strikes on the part of pilots and employees from local airline company "Binter" has resulted in up to dozens of flights canceled in addition to delays. The strikes, provoked by employee complaints of job instability, has affected local flights on the Canary Islands as well as to Mauritania and to Morocco.

UNEMPLOYMENT RATE FOR IMMIGRANTS INCREASES

18. (U) Though total jobs may be increasing overall, an

increase in unemployment rates for immigrant populations in Spain has led some to believe that the influx of immigrants may be reaching a saturation point. 2007 estimates indicate that one in five unemployed workers is an immigrant worker compared with a 2005/2006 estimate of one in seven.

THE SAVINGS BANKS PHENOMENON IN SPAIN

¶9. (U) Recent statistics show that "Savings Banks" are steadily growing above and beyond the rate of traditional banks. A summary of 2006 statistics show that more than one thousand new branches of various savings banks were opened with an increase in jobs of over 6,000. In contrast, Spanish traditional banks opened slightly over 500 new offices with a corresponding 1,229 jobs. Observers say that Spanish savings banks are positioning themselves to make the foray into the international economy

MINISTRY OF INDUSTRY TO PROPOSE AN INCREASE IN ELECTRICITY PRICES

¶10. (U) The Ministry of Industry's recent announcement that electricity prices will once again increase in July above inflation rates have caused some to complain that the government is reneging on a December 2006 promise to keep electricity prices consistent with inflation. The Ministry of Industry, with the support of the National Commission on Energy, is expected to raise price levels by 1.8% -- an additional increase above the January 2007 increase of 2.86%.

Others point out that this increase is incongruent with decreasing energy costs (due to more cost-effective cheaper sources such as hydraulic and wind energy). However, industry experts say that this increase is needed in order to address past and anticipated deficits caused by previous miscalculations.

Llorens